



# INVESTMENT PREFERENCE AND IMPACT OF INSURANCE SECTOR

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## ABSTRACT

An investment is an asset or item that is purchased with the hope that it will generate income or will appreciate in the future. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. Insurance contract are the contract of mutual trust and confidence. Both parties to the contract i.e., the insurer and the insured must disclose all relevant information to each other. Individuals who insure their lives to cover the risks of old age and death are induced to save a part of their current income, which is by itself of great importance. Insurance is also a source of employment for the people. The people get employed directly in its offices spread over the country and it also provides opportunities to the people to earn their livelihood by working as agent of the insurance companies. The availability of various sources of investment medias, the paper tend to understand preference of respondents towards investment sources and aims to identify the importance of Insurance sectors.

**KEYWORDS:** Insurance, Investment, Awareness, Policies etc.

## INTRODUCTION:

Insurance is a contract between the insurer and insured where by the insurer undertakes to pay the insured a fixed amount, in exchange for a fixed sum (premium), on the happening of a certain event (like at a certain age or on death), or compensate the actual loss when it takes place, due to the risk insured. To appreciate the importance of insurance we have to the benefit that we derive from it. Insurance serves as a very useful means of spreading the effects of personal as well as business risk by way of loss or damage among many. Thus, the insured have a sense of security. Individuals who pay premium periodically out of current income can look forward to an assurance of receiving a fixed amount on retirement or his family being secured in the event of his death Businessmen also pay premium for insurance of risk of loss without constant worry about the possibility of loss or damage.

## INSURANCE SECTOR AN OVERVIEW:

Insurance, which is based on a contract, may be broadly classified into the following types. (i) Life insurance, (ii) Fire insurance, (iii) Marine insurance, and Other type such as burglary insurance, motor vehicle, etc. Until recently Life Insurance Corporation of India (LIC) and General Insurance Corporation with its subsidiaries happened to be the only organization engaged in life and general insurance business in India. Now a number of other private companies have entered this service sector.

Life insurance is generally considered a mean of protecting one's family against the unforeseeable circumstance of the death of an earning member. However, there are a number of other benefits that are not apparent. Some benefits accrue to the individual and their families, while other assists economic development. For instance, an insurance company takes the risk of large and uncertain losses in exchange for small premiums. This gives a sense of confidence and security to the insured individual through the protection of insurance in the event of an unfortunate incident. In large size commercial and industrial organizations, it facilitates operations as many of the risk are transferred to the insurer. Insurance, particularly life insurance, is one of the ways of providing for the future. A life insurance policy which gives an annuity is a combination of protection and investment. It increases the creditworthiness of the assured person because it can provide funds for repayment in the event of death. It also reduce losses owing to theft, robbery, fire accidents, etc. in addition, it serves as a solution to social problem. For instance while compensation is available to victims of industrial injuries and road accidents, financial difficulties on account of old age, disability or death is minimized.

### Life Insurance:

A contract of life insurance (also known as 'life assurance') is a contract where by the insurer undertakes to pay a certain sum either on the death of the insured or on the expiry of a certain number of year. In return, the insured agrees to pay an amount as premium either in a lump sum or in periodical instalments, annually or half-yearly. The risk insured against in this case is certain to happen. Hence, life insurance is also referred to as life assurance.

### Fire Insurance:

A contract of fire insurance is a contract where by the insurer, on payment of premium by the insured, undertakes to compensate the insured for the loss or dam-

age suffered by reason of certain defined subject matter being damaged or destroyed by fire. It is a contract of indemnity, that is, the insured cannot claim any more than the value of property lost or damaged by fire or the amount of police, whichever is lower.

### Marine Insurance:

Marine insurance is an agreement (contract) by which the insurance company (also known as underwriter) agrees to indemnify the owner of a ship or cargo against risk, which are incidental to marine adventures. Marine insurance that covers the risk of loss cargo by storm known as cargo insurance.

### Other Types of Insurance:

Apart from life, fire and marine insurance, general insurance companies can insure a variety of other risk through different policies. Some of these risk and the different policies are vehicles insurance, Burglary insurance and Fidelity insurance

## FUNCTION OF IRDA:

Function of IRDA are defined in section 14 IRDAI act 1999[2] and include issuing renewing modifying withdrawing suspending or cancelling registration protecting policyholder interests specifying qualification the code of conduct and training for intermediaries and agent specifying the code of conduct for surveyors and loss assessors promoting efficiency promoting and regulating professional organisation connected with the insurance and reinsurance industry levying fees and other charges inspecting and investigating insurers, intermediaries and other relevant organisation regulating rate advantages, terms and conditions which may be offered by insurers not covered by the tariff advisory committee under section 64u of the insurance act, 1938(4 of 1938) specifying how books should be kept regulating company investment of fund regulating a margin of solvency adjudicating disputes between insurers and intermediaries of insurance intermediaries supervising the tariff advisory committee specifying the percentage of premium income to finance schemes for promoting and regulating professional organisation specifying the percentage of life and general insurance business under taken in the rural or social sector specifying the form and the manner in which books of accounts shall be maintained and statement of accounts shall be rendered by insurers and other insurer intermediaries.

## REVIEW OF LITERATURE:

Metlife (2001), life insurance programs are an important part of an individual's financial plan. The traditional view of life insurance as a commodity—simply underwriting coverage, differentiated by price and little else evolving as communication education, and benefit enhancements are added. research and trends support the evolution of employer-based life insurance programmes from merely providing a benefit to beneficiaries at the point of claim to a programme that is an important, vent critical components to an individual's overall financial plan . BCG(2003), life insurance has become the most widely used means of family financial security planning. A part from that, it can help ensures the financial security of family, pay the support of dependents and meet outstanding financial obligation when the policyholder dies. furthermore individuals and families need to become aware of the benefits, issues and differences in various life insurance plan. Baek and De vane (2005), agreed in their research that there is a positive relationship between education and life insurance demand. they recognized that

who have a better education will purchase more life insurance. Insurance purchase by householder by using 2001 survey consumer finance data. They explained this positive relationship was due to a greater loss of human capital when the householder head dies. Householder with a head with greater education have potentially higher income. The death of such a householder head will bring more financial loss to the family as compared with those with lower education. Hence, the purchase of life insurance for those with greater education increase as the value of the lost human capital. In (2007) studied an individual choice on the purchase of life insurance and the purchase of stock using one period and two period models. He the researcher argued that when an individual decided. The purchase of life insurance and stock would consider his personal circumstance, such as wealth, future income, health status and survival probability, attitudes towards risk and bequest. He found that an increased probability of surviving encouraged the individual to hold more life insurance.

#### OBJECTIVE OF THE STUDY:

1. To analyse the investment preference of the people.
2. To find out the reasons for availing insurance policies

#### STATEMENT OF PROBLEM:

In India, insurance is generally be considered on a tax-saving device instead of its other implied long term financial benefit. India people like to invest in properties and gold followed by deposit in bank. In India people selectively invest in shares that too in tiny proportion. Even in the modern era, Life Insurance Corporation dominates the field. From 2000 to 2011, 23 private insurance companies have been registered. This study is made to analyses the awareness level of the people towards insurance and the reason behind to have an insurance policy

#### LIMITATIONS OF THE STUDY:

1. The study is limited to people residing in Coimbatore city only so the result may not be generalised.
2. The sample size is restricted to 150 due to time constraint
3. The study is based on the responses given by the people, so based on their and mental status the responses may be biased.

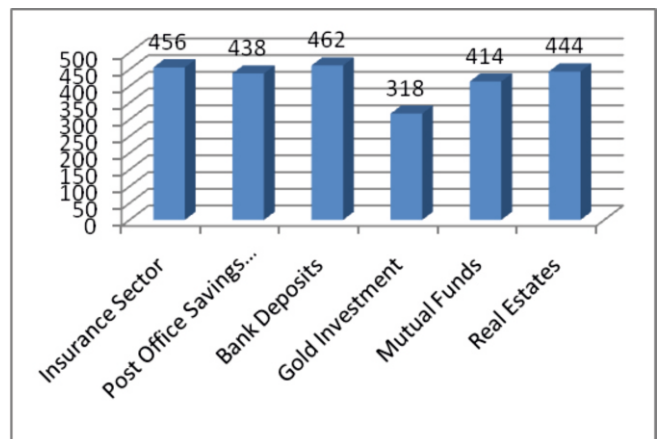
#### RESULTS AND DISCUSSION:

**Table 1**  
**Demographic Profile**

S. No.	Demographic Profile		Frequency	Percentage
1	Gender	Male	108	90
		Female	12	10
2	Education background	Illiterate	6	5
		School level	12	10
		College level	78	65
		Professional degree	24	20
		Others		
3	Occupation	Business	36	30
		Private employee	36	30
		Government employee	24	20
		others	24	20
4	Monthly income	Rs.10000-20000	42	35
		Rs. 20000-30000	42	35
		Rs. 30000-40000	24	20
		Above Rs. 40000	12	10
5	Family type	Nuclear	84	70
		Joint family	36	30
6	Family size	2	12	10
		3	54	45
		4	24	20
		Above 4	30	25

Source: Primary Data

**Chart - 1**  
**Investment Preference**



Source: Primary Data

The above chart shows the investment preference of the respondents by using rank analysis. The highest score 462 has been obtained by bank deposits and it gets the first rank in investment preference. Next highest score (456) goes to Insurance Sectors and hence it obtained Second rank.

#### WEIGHTED AVERAGE ANALYSIS:

**Table 2**  
**Reason for Choosing Insurance Sector**

S. No.	Reason	Weighted Score	Rank
1	Agent force	300	7
2	For effective savings	402	4
3	To meet future expected expenses	468	2
4	To meet contingencies	318	6
5	Society needs	426	3
6	For family safety	546	1
7	IRDA production	390	5

Source: Primary Data

The above table reveals the reason for opting insurance policies, among the seven reasons listed here, the "Family safety" obtains the first rank with the highest score of 546. Second rank goes to "To meet future expenses", third rank goes to "Society needs". The factor "Effective savings" and "IRDA Protection" gets fourth and fifth rank respectively. The last rank goes to the reason "Agent force". Hence the prime reason for availing insurance policy is "Family Safety".

#### CONCLUSION:

Investment is to invest is to allocate money in the expectation of some benefit in the future. Investment generally results in acquiring an asset, also called an investment. If the asset is available at a price worth investing, it is normally expected either to generate income, or to appreciate in value, so that it can be sold at a higher price (or both). Among the various investment Media the Insurance sector is occupying the second position in investment preference of the respondents. The reason for opting the insurance policy as investment proposal is because of family safety. With increased awareness of IRDA protection, the insurance sector has to develop its sector as well as services to cover the entire population.

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